

## Message Text

CONFIDENTIAL

PAGE 01 MAPUTO 00514 101822Z

ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-01

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00

XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 /096 W

-----101825Z 119704 /43

P R 101345Z MAY 77

FM AMEMBASSY MAPUTO

TO SECSTATE WASHDC PRIORITY 5750

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

AMEMBASSY PRETORIA

AMEMBASSY LONDON

AMEMBASSY LUSAKA

AMEMBASSY DAR ES SALAAM

C O N F I D E N T I A L MAPUTO 0514

E.O. 11652: GDS

TAGS: PFOR, ECON, SF, MZ

SUBJECT: PRESS ARTICLE ON SOUTH AFRICA-MOZAMBICAN ECONOMIC  
COOPERATION--CONGRESSMAN DIGGS' REQUEST

REF: (A) STATE 100268 (NOTAL) (B) PRETORIA 2213 (NOTAL)

1. IN RESPONSE TO FIRST POINT TO WHICH CONGRESSMAN DIGGS  
REFERRED, EMBASSY WOULD LIKE TO ADD TO PRETORIA REFTTEL  
PARA 1A:

A. GOLD PAID TO GPRM BY THE SOUTH AFRICAN MINES AT THE  
"OFFICIAL" PRICE OF DOLS 42 PER OUNCE FOR DEFERRED WAGES  
OF MOZAMBICAN MINERS IS SOLD FOR GPRM (PROBABLY BY THE  
SOUTH AFRICAN RESERVE BANK) ON THE "FREE" MARKET AT  
PRICES WHICH IN THE PAST YEAR HAVE RANGED FROM ABOUT DOLS  
130 PER OUNCE TO THE CURRENT PRICE OF ABOUT DOLS 150.  
THIS, A "WINDFALL" PROFIT OF DOLS 90-110 ACCRUES TO MO-  
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PAGE 02 MAPUTO 00514 101822Z

ZAMBIQUE FOR EACH OUNCE OF GOLD SOLD. IN THE FIRST 18  
MONTHS AFTER INDEPENDENCE (JUNE 75-DEC 76), EMBASSY WAS  
TOLD THAT GOLD SALES GENERATED AT LEAST DOLS 233 MILLION  
IN FOREIGN EXCHANGE FOR MOZAMBIQUE.

B. BECAUSE OF THE PRECIPITOUS DECLINE IN MOZAMBICAN EX-  
PORTS (PRIMARILY AGRICULTURAL PRODUCTS), AND THE DECREASE  
IN REVENUES FROM THE TRANSPORTATION SECTOR (DUE TO CLOSURE

OF RHODESIAN BORDER, LOSS OF SOUTH AFRICAN IMPORT TRAFFIC, AND OPERATIONS PROBLEMS IN PORTS AND RAILWAYS), EARNINGS FROM THESE SOURCES HAVE DECLINED TO MAKE PROFITS FROM GOLD SALES MOZAMBIQUE'S MOST IMPORTANT SOURCE OF FOREIGN EXCHANGE. BANK OF MOZAMBIQUE OFFICIALS ESTIMATE THAT AS MUCH AS 80 PER CENT OF MOZAMBIQUE'S FOREIGN EXCHANGE COMES FROM THIS SOURCE.

C. AS PRETORIA REFTEL INDICATED, SAG INTENTIONS REGARDING PAYMENTS TO MOZAMBIQUE FOR MINERS AFTER IMF CHANGES IN TWO-PRICE SYSTEM FOR GOLD ARE NOT YET CLEAR. ISSUE IS COMPLI-CATED BECAUSE DEFERRED WAGE PAYMENTS IN GOLD ARE MADE BY SOUTH AFRICAN MINES, NOT DIRECTLY BY SAG. BECAUSE OF A SURPLUS IN MINE LABOR, MARGINAL PROFITABILITY OF SOME SOUTH AFRICAN MINES, AND SOUTH AFRICAN RECESSION, MINES ARE LOATH TO CONTINUE MAKING WHAT AMOUNTS TO PREMIUM PAYMENTS TO MOZAMBIKAN MINERS IN MINES' PRIMARY PRODUCT. MINES HAVE REPORTEDLY STATED THIS BOTH TO SAG AND GPRM. EVEN IF MINES DO NOT CONTINUE MAKING PREMIUM PAYMENTS, SAG HAS OPTION TO PROVIDE SOME TYPE OF DIRECT GOVERNMENT-TO-GOVERNMENT SUBSIDY TO GPRM. IF NO PREMIUM PAYMENT OR SUBSIDY IS MADE, MOZAMBIQUE'S FOREIGN EXCHANGE EARNINGS FROM THIS SOURCE WILL FALL TO LESS THAN ONE-THIRD OF CURRENT EARNINGS. EMBASSY HAS BEEN UNABLE CONFIRM REPORTS THAT SAG AND GPRM ARE PRESENTLY NEGOTIATING ISSUE.

2, REGARDING THE USE OF MOZAMBIKAN PORTS BY SOUTH AFRICAN SHIPPERS, SOUTH AFRICAN POSTS AND EMBASSY MAPUTO HAVE CONSISTENTLY REPORTED DETERIORATING PORT CONDITIONS AND INCREASING RELUCTANCE OF SHIPPERS TO USE MAPUTO (SEE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MAPUTO 00514 101822Z

MAPUTO 343 AND DURBAN 200). AS DURBAN REPORTED, SOUTH AFRICAN IMPORTERS MAY CHOOSE THE PORT OF ENTRY FOR THEIR GOODS, AND A SUBSTANTIAL NUMBER HAVE DIVERTED TRAFFIC FROM MAPUTO. SOUTH AFRICAN EXPORTERS, HOWEVER, MUST USE ONLY PORTS DESIGNATED BY SOUTH AFRICAN RAIL AND HARBOR AUTHORITY (SARH). SARH CONTINUE TO SEND BULK CARGO THROUGH MAPUTO, BUT OPERATIONS PROBLEMS AND RISING COSTS ARE CAUSING INCREASED RELUCTANCE ON PART OF SHIPPERS TO USE MAPUTO, AND ON PART OF SHIPPING LINES TO CALL HERE. ALREADY, CHROME PURCHASERS AND EXPORTERS HAVE PERSUADED SARH TO DIVERT 400,000 TONS OF CHROME PER YEAR TO DURBAN. AS PRETORIA STATED IN REFTEL, WHILE SAG OFFICIAL POLICY IS TO CONTINUE TO PUSH USE OF MAPUTO, AND TO PROVIDE TECHNICAL AND MAINTENANCE SUPPORT TO PORT AND RAILWAY, THAT POLICY APPEARS TO BE MEETING INCREASED RESISTANCE FROM SOUTH AFRICAN EXPORTERS.

3. THE THIRD POINT RAISED REGARDING NUMBER OF PORTUGUESE CONTRACT WORKERS WHO INTEND TO LEAVE IS DIFFICULT TO ASSESS.

EMBASSY DOES NOT KNOW TOTAL NUMBER OF CONTRACT WORKERS, NOR NUMBERS IN STATE-CONTROLLED SECTOR OF ECONOMY OR GOVERNMENT MINISTRIES. HOWEVER, EMBASSY SOUNDINGS INDICATE CONSISTENTLY THAT 90-95 PERCENT OF CONTRACT WORKERS WILL NOT RENEW THEIR CONTRACTS. GPRM MINISTER OF TRANSPORT AND COMMUNICATION STATE IN PRESS RECENTLY THAT OVER 1000 TECHNICIANS AND MID-LEVEL MANAGERS IN MAPUTO PORT AND RAILWAY ALONG WILL BE GONE BY END OF JUNE. GPRM MADE SOME OVERTURES AT RECRUITING FOREIGNERS (INDIANS AND PAKASTANIS) TO REPLACE PORTUGUESE, BUT NONE OF THE ATTEMPTS APPEARS TO HAVE BEEN FULLY PURSUED. EMBOFF WAS TOLD THAT GPRM MAY NOW NOT EVEN TRY TO REPLACE DEPARTING PORTUGUESE, BUT WILL INSTEAD RELY UPON ITS OWN RESOURCES. ALTHOUGH SAG IS ALREADY SUPPLYING SOME TECHNICIANS, USUALLY ON AD HOC BASIS, AND PERFORMS MAINTENANCE WORK IN SOUTH AFRICA ON MOZAMBICAN RAIL EQUIPMENT, EMBASSY THINKS IT UNLIKELY THAT GPRM WOULD ACCEPT MORE THAN THE FEW SOUTH AFRICANS

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PAGE 04 MAPUTO 00514 101822Z

NOW HERE. EMBASSY BELIEVES THAT DEPARTURE OF PORTUGUESE WILL CONTRIBUTE TO DECLINING PORT EFFICIENCY, FURTHER REDUCING EARNINGS.

4. COMMENT: ON BALANCE, CONSIDERING THE IMPORTANCE OF GOLD PAYMENTS TO MOZAMBIQUE, USE OF THE PORT BY SOUTH AFRICAN SHIPPERS, SOUTH AFRICA'S TRADE POSITION AS THE PRIMARY SUPPLIER TO MOZAMBIQUE AND SOUTH AFRICA'S GROWING IMPORTANCE AS A SOURCE OF FOOD IMPORTS, EMBASSY ASSESSMENT IS THAT MOZAMBIQUE IS HIGHLY DEPENDENT ECONOMICALLY ON SOUTH AFRICA. UNLESS MOZAMBIQUE CAN DRASTICALLY INCREASE ITS AGRICULTURAL AND MANUFACTURING EXPORTS, UPGRADE PORT AND RAIL OPERATIONS, AND FIND A WAY TO LESSEN NEED TO SEND MIGRANT LABOR TO SOUTH AFRICA, THAT DEPENDENCY WILL CONTINUE. IF THE MOZAMBICAN ECONOMY CONTINUES TO DECLINE, AND NO MASSIVE INFLUX OF FOREIGN AID OCCURS, THAT DEPENDENCY WILL INCREASE.

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## Message Attributes

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